RICHARD BERNSTEIN ON THE US

Oppressive climate is fostering conditions for good purchasing

Bull and Bear points

Today's investor is so preoccupied with the present, the price he or she is willing to pay for the future is minimal. Notwithstanding all the obvious negatives, this recession, more than others previously, has been subject to continuous reviews by media outlets which can occasionally overstate the real impact on the economy. However, it is precisely this type of oppressive climate that fosters conditions that allow long-term investors to purchase really attractive businesses at valuations that already price in a reasonable worst case. This exceptional opportunity helps eliminate one of the biggest risks an equity investor faces – the risk of overpaying based on inflated expectations.

Domestic economic growth for 2009 is likely to remain poor. However, the magnitude of government intervention, the coordination of G20 countries and the passage of time should build a foundation for some renewed growth in 2010.

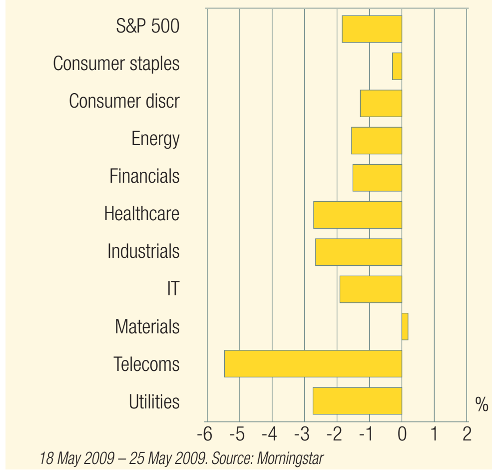
However, we do not believe the recovery will follow the traditional script as the issues that led to our present condition were not the result of traditional monetary policy. During the last few months, it is noteworthy that we have seen elements of recovery in several different economic sectors, supporting the notion there will be numerous opportunities across sectors to make high returns as the economy recovers. The severe market correction was broad, taking down all sectors of the economy, and it stands to reason the recovery will not be limited to a few companies or industries. This phenomenon underscores the need to focus on stock selection and company fundamentals.

As more venturesome 'animal spirits' return, and activity levels and money velocity improve, we believe inflation will become a significant issue given the mountain of money created to solve the credit crisis. This development will have the effect of improving nominal asset prices and reducing the weight of liabilities, but it has implications for our currency, interest rates and the valuation of assets. Consequently, we are paying special attention to our companies' ability to pass on inflation, their sensitivity to the dollar and their probable valuation in a higher inflation environment.

We continue to look forward to find opportunities, not obstacles. Although macro-economic weakness remains, there are signs the rate of decline is slowing, creating opportunity for long-term investors. Consumer confidence has risen from its record lows and consumer spending appears to have flattened out. Furthermore, existing home sales are increasing and real hourly earnings are up. Having said this, near-record yield spreads still reflect a lack of confidence in the markets and deflation is still a risk near term versus inflation in the long term. The wealth destruction has been enormous – $11tn in the US in 2008, which will take time to recover. We must remain patient.

Richard Bernstein is manager of the Brown Advisory US Equity Value fund

S&P 500 sector returns



18 May 2009 – 25 May 2009. Source: Morningstar

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(IMA) North America: over three years

Top 5	3yr % Chg	Rank	Volatility (monthly)	Fund size (m) (£)	Morningstar Rating™
Neptune US Opportunities A Acc	18.66	1	5.07	159.9	★★★★★
Schroder US Sm & Mid Cap Fd Acc	3.35	2	5.08	174.50	★★★★★
Jupiter Nrth American Income Inc	0.85	3	4.46	159.86	★★★★
Gartmore US Growth R Acc	-0.7	4	4.64	139.22	★★★★★
Newton American Inc	-1.24	5	5.38	39.06	★★★★
Bottom 5					
New Star American Portfl A Acc	-24.76	61	4.78	9.79	★★
IP US Equity Acc	-25.1	62	4.97	303	★
M&G Nth American Val A Inc	-31.6	63	7.39	80.72	★
Franklin Mutual Shares A acc £	-34.72	64	6	15.4	★
Legg Mason US Equity A	-44.95	65	7.16	97.08	★
Sector average	**-13.56**	**65**	**5.29**	**159.15**	

Performances calculated bid to bid, net income re-invested, GBP to 25/05/09. Data Source: © 2009 Morningstar, Inc. All Rights Reserved.